

**Calendar No. 124**

106TH CONGRESS  
1ST Session

**S. 1134**

[Report No. 106-54]

**A BILL**

To amend the Internal Revenue Code of 1986 to allow tax-free expenditures from education individual retirement accounts for elementary and secondary school expenses, to increase the maximum annual amount of contributions to such accounts, and for other purposes.

MAY 26, 1999

Read twice and placed on the calendar

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IN THE SENATE OF THE UNITED STATES

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Mr. ROTH, from the Committee on Finance, reported the following original bill; which was read twice and placed on the calendar

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To amend the Internal Revenue Code of 1986 to allow tax-free expenditures from education individual retirement accounts for elementary and secondary school expenses, to increase the maximum annual amount of contributions to such accounts, and for other purposes.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

1 **SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE;**  
 2 **TABLE OF CONTENTS.**

3 (a) **SHORT TITLE.**—This Act may be cited as the  
 4 “Affordable Education Act of 1999”.

5 (b) **AMENDMENT OF 1986 CODE.**—Except as other-  
 6 wise expressly provided, whenever in this Act an amend-  
 7 ment or repeal is expressed in terms of an amendment  
 8 to, or repeal of, a section or other provision, the reference  
 9 shall be considered to be made to a section or other provi-  
 10 sion of the Internal Revenue Code of 1986.

11 (c) **TABLE OF CONTENTS.**—The table of contents for  
 12 this Act is as follows:

Sec. 1. Short title; amendment of 1986 Code; table of contents.

**TITLE I—EDUCATION SAVINGS INCENTIVES**

Sec. 101. Modifications to education individual retirement accounts.

Sec. 102. Modifications to qualified tuition programs.

**TITLE II—EDUCATIONAL ASSISTANCE**

Sec. 201. Extension of exclusion for employer-provided educational assistance.

Sec. 202. Elimination of 60-month limit on student loan interest deduction.

Sec. 203. Exclusion of certain amounts received under the National Public  
 Health Service Corps Scholarship Program and the F. Edward  
 Hébert Armed Forces Health Professions Scholarship and Fi-  
 nancial Assistance Program.

**TITLE III—LIBERALIZATION OF TAX-EXEMPT FINANCING RULES  
 FOR PUBLIC SCHOOL CONSTRUCTION**

Sec. 301. Additional increase in arbitrage rebate exception for governmental  
 bonds used to finance educational facilities.

Sec. 302. Treatment of qualified public educational facility bonds as exempt fa-  
 cility bonds.

Sec. 303. Federal guarantee of school construction bonds by Federal Housing  
 Finance Board.

**TITLE IV—REVENUE PROVISIONS**

Sec. 401. Modification to foreign tax credit carryback and carryover periods.

Sec. 402. Limitation on use of non-accrual experience method of accounting.

- Sec. 403. Returns relating to cancellations of indebtedness by organizations lending money.
- Sec. 404. Extension of Internal Revenue Service user fees.
- Sec. 405. Property subject to a liability treated in same manner as assumption of liability.
- Sec. 406. Charitable split-dollar life insurance, annuity, and endowment contracts.
- Sec. 407. Transfer of excess defined benefit plan assets for retiree health benefits.
- Sec. 408. Limitations on welfare benefit funds of 10 or more employer plans.
- Sec. 409. Modification of installment method and repeal of installment method for accrual method taxpayers.
- Sec. 410. Inclusion of certain vaccines against streptococcus pneumoniae to list of taxable vaccines.

# 1    **TITLE I—EDUCATION SAVINGS**

## 2                            **INCENTIVES**

### 3    **SEC. 101. MODIFICATIONS TO EDUCATION INDIVIDUAL RE-**

### 4                            **TIREMENT ACCOUNTS.**

#### 5            (a) MAXIMUM ANNUAL CONTRIBUTIONS.—

6                    (1) IN GENERAL.—Section 530(b)(1)(A)(iii)

7                    (defining education individual retirement account) is

8                    amended by striking “\$500” and inserting “the con-

9                    tribution limit for such taxable year”.

10                  (2) CONTRIBUTION LIMIT.—Section 530(b) (re-

11                  lating to definitions and special rules) is amended by

12                  adding at the end the following new paragraph:

13                    “(4) CONTRIBUTION LIMIT.—The term ‘con-

14                    tribution limit’ means \$500 (\$2,000 in the case of

15                    any taxable year beginning after December 31,

16                    1999, and ending before January 1, 2004).”

17                  (3) CONFORMING AMENDMENT.—Section

18                  4973(e)(1)(A) is amended by striking “\$500” and

1 inserting “the contribution limit (as defined in sec-  
 2 tion 530(b)(4)) for such taxable year”.

3 (b) TAX-FREE EXPENDITURES FOR ELEMENTARY  
 4 AND SECONDARY SCHOOL EXPENSES.—

5 (1) IN GENERAL.—Section 530(b)(2) (defining  
 6 qualified higher education expenses) is amended to  
 7 read as follows:

8 “(2) QUALIFIED EDUCATION EXPENSES.—

9 “(A) IN GENERAL.—The term ‘qualified  
 10 education expenses’ means—

11 “(i) qualified higher education ex-  
 12 penses (as defined in section 529(e)(3)),  
 13 and

14 “(ii) qualified elementary and sec-  
 15 ondary education expenses (as defined in  
 16 paragraph (5)).

17 Such expenses shall be reduced as provided in  
 18 section 25A(g)(2).

19 “(B) QUALIFIED STATE TUITION PRO-  
 20 GRAMS.—Such term shall include any contribu-  
 21 tion to a qualified State tuition program (as de-  
 22 fined in section 529(b)) on behalf of the des-  
 23 ignated beneficiary (as defined in section  
 24 529(e)(1)); but there shall be no increase in the  
 25 investment in the contract for purposes of ap-

1           plying section 72 by reason of any portion of  
 2           such contribution which is not includible in  
 3           gross income by reason of subsection (d)(2).”

4           (2) QUALIFIED ELEMENTARY AND SECONDARY  
 5           EDUCATION EXPENSES.—Section 530(b) (relating to  
 6           definitions and special rules), as amended by sub-  
 7           section (a)(2), is amended by adding at the end the  
 8           following new paragraph:

9           “(5) QUALIFIED ELEMENTARY AND SECONDARY  
 10          EDUCATION EXPENSES.—

11           “(A) IN GENERAL.—The term ‘qualified el-  
 12          ementary and secondary education expenses’  
 13          means—

14           “(i) expenses for tuition, fees, aca-  
 15          demic tutoring, special needs services,  
 16          books, supplies, computer equipment (in-  
 17          cluding related software and services), and  
 18          other equipment which are incurred in con-  
 19          nection with the enrollment or attendance  
 20          of the designated beneficiary of the trust  
 21          as an elementary or secondary school stu-  
 22          dent at a public, private, or religious  
 23          school, and

24           “(ii) expenses for room and board,  
 25          uniforms, transportation, and supple-

mentary items and services (including extended day programs) which are required or provided by a public, private, or religious school in connection with such enrollment or attendance.

“(B) SPECIAL RULE FOR HOMESCHOOLING.—Such term shall include expenses described in subparagraph (A)(i) in connection with education provided by homeschooling if the requirements of any applicable State or local law are met with respect to such education.

“(C) SCHOOL.—The term ‘school’ means any school which provides elementary education or secondary education (kindergarten through grade 12), as determined under State law.”

(3) SPECIAL RULES FOR APPLYING EXCLUSION TO ELEMENTARY AND SECONDARY EXPENSES.—Section 530(d)(2) (relating to distributions for qualified higher education expenses) is amended by adding at the end the following new subparagraph:

“(E) SPECIAL RULES FOR ELEMENTARY AND SECONDARY EXPENSES.—

“(i) IN GENERAL.—The aggregate amount of qualified elementary and sec-

ondary education expenses taken into account for purposes of this paragraph with respect to any education individual retirement account for all taxable years shall not exceed the sum of the aggregate contributions to such account for taxable years beginning after December 31, 1999, and before January 1, 2004, and earnings on such contributions.

“(ii) SPECIAL OPERATING RULES.—

For purposes of clause (i)—

“(I) the trustee of an education individual retirement account shall keep separate accounts with respect to contributions and earnings described in clause (i), and

“(II) if there are distributions in excess of qualified elementary and secondary education expenses for any taxable year, such excess distributions shall be allocated first to contributions and earnings not described in clause (i).”

(4) CONFORMING AMENDMENTS.—Section 530

is amended—



1 (A) by striking “higher” each place it ap-  
 2 pears in subsections (b)(1) and (d)(2), and

3 (B) by striking “HIGHER” in the heading  
 4 for subsection (d)(2).

5 (c) WAIVER OF AGE LIMITATIONS FOR CHILDREN  
 6 WITH SPECIAL NEEDS.—Section 530(b)(1) (defining edu-  
 7 cation individual retirement account) is amended by add-  
 8 ing at the end the following flush sentence:

9 “The age limitations in the preceding sentence and  
 10 paragraphs (5) and (6) of subsection (d) shall not  
 11 apply to any designated beneficiary with special  
 12 needs (as determined under regulations prescribed  
 13 by the Secretary).”

14 (d) ENTITIES PERMITTED TO CONTRIBUTE TO AC-  
 15 COUNTS.—Section 530(c)(1) (relating to reduction in per-  
 16 mitted contributions based on adjusted gross income) is  
 17 amended by striking “The maximum amount which a con-  
 18 tributor” and inserting “In the case of a contributor who  
 19 is an individual, the maximum amount the contributor”.

20 (e) TIME WHEN CONTRIBUTIONS DEEMED MADE.—

21 (1) IN GENERAL.—Section 530(b) (relating to  
 22 definitions and special rules), as amended by sub-  
 23 section (b)(2), is amended by adding at the end the  
 24 following new paragraph:

1           “(6) TIME WHEN CONTRIBUTIONS DEEMED  
 2           MADE.—An individual shall be deemed to have made  
 3           a contribution to an education individual retirement  
 4           account on the last day of the preceding taxable year  
 5           if the contribution is made on account of such tax-  
 6           able year and is made not later than the time pre-  
 7           scribed by law for filing the return for such taxable  
 8           year (not including extensions thereof).”

9           (2) EXTENSION OF TIME TO RETURN EXCESS  
 10          CONTRIBUTIONS.—Subparagraph (C) of section  
 11          530(d)(4) (relating to additional tax for distribu-  
 12          tions not used for educational expenses) is  
 13          amended—

14                 (A) by striking clause (i) and inserting the  
 15                 following new clause:

16                         “(i) such distribution is made before  
 17                         the 1st day of the 6th month of the taxable  
 18                         year following the taxable year, and”, and

19                 (B) by striking “DUE DATE OF RETURN”  
 20                 in the heading and inserting “JUNE”.

21          (f) COORDINATION WITH HOPE AND LIFETIME  
 22          LEARNING CREDITS AND QUALIFIED TUITION PRO-  
 23          GRAMS.—

24                 (1) IN GENERAL.—Section 530(d)(2)(C) is  
 25                 amended to read as follows:

1           “(C) COORDINATION WITH HOPE AND  
2           LIFETIME LEARNING CREDITS AND QUALIFIED  
3           TUITION PROGRAMS.—

4           “(i) CREDIT COORDINATION.—

5                   “(I) IN GENERAL.—Except as  
6                   provided in subclause (II), subpara-  
7                   graph (A) shall not apply for any tax-  
8                   able year to any qualified higher edu-  
9                   cation expenses with respect to any  
10                  individual if a credit is allowed under  
11                  section 25A with respect to such ex-  
12                  penses for such taxable year.

13                  “(II) SPECIAL COORDINATION  
14                  RULE.—In the case of any taxable  
15                  year beginning after December 31,  
16                  1999, and before January 1, 2004,  
17                  subclause (I) shall not apply, but the  
18                  total amount of qualified higher edu-  
19                  cation expenses otherwise taken into  
20                  account under subparagraph (A) with  
21                  respect to an individual for such tax-  
22                  able year shall be reduced (after the  
23                  application of the reduction provided  
24                  in section 25A(g)(2)) by the amount  
25                  of such expenses which were taken

1 into account in determining the credit  
 2 allowed to the taxpayer or any other  
 3 person under section 25A with respect  
 4 to such expenses.

5 “(ii) COORDINATION WITH QUALIFIED  
 6 TUITION PROGRAMS.—If the aggregate dis-  
 7 tributions to which subparagraph (A) and  
 8 section 529(c)(3)(B) apply exceed the total  
 9 amount of qualified higher education ex-  
 10 penses otherwise taken into account under  
 11 subparagraph (A) (after the application of  
 12 clause (i)) with respect to an individual for  
 13 any taxable year, the taxpayer shall allo-  
 14 cate such expenses among such distribu-  
 15 tions for purposes of determining the  
 16 amount of the exclusion under subpara-  
 17 graph (A) and section 529(c)(3)(B).”

18 (2) CONFORMING AMENDMENTS.—

19 (A) Subsection (e) of section 25A is  
 20 amended to read as follows:

21 “(e) ELECTION NOT TO HAVE SECTION APPLY.—A  
 22 taxpayer may elect not to have this section apply with re-  
 23 spect to the qualified tuition and related expenses of an  
 24 individual for any taxable year.”

1 (B) Section 135(d)(2)(A) is amended by  
 2 striking “allowable” and inserting “allowed”.

3 (C) Section 530(b)(2)(A) is amended by  
 4 striking “, reduced as provided in section  
 5 25A(g)(2)”.

6 (D) Section 530(d)(2)(D) is amended—

7 (i) by striking “or credit”, and

8 (ii) by striking “CREDIT OR” in the  
 9 heading.

10 (E) Section 4973(e)(1) is amended by add-  
 11 ing “and” at the end of subparagraph (A), by  
 12 striking subparagraph (B), and by redesign-  
 13 ating subparagraph (C) as subparagraph (B).

14 (g) EFFECTIVE DATE.—The amendments made by  
 15 this section shall apply to taxable years beginning after  
 16 December 31, 1999.

17 **SEC. 102. MODIFICATIONS TO QUALIFIED TUITION PRO-**  
 18 **GRAMS.**

19 (a) ELIGIBLE EDUCATIONAL INSTITUTIONS PER-  
 20 MITTED TO MAINTAIN QUALIFIED TUITION PROGRAMS.—

21 (1) IN GENERAL.—Section 529(b)(1) (defining  
 22 qualified State tuition program) is amended by in-  
 23 serting “or by 1 or more eligible educational institu-  
 24 tions” after “maintained by a State or agency or in-  
 25 strumentality thereof”.

1           (2) PRIVATE QUALIFIED TUITION PROGRAMS  
 2 LIMITED TO BENEFIT PLANS.—Clause (ii) of section  
 3 529(b)(1)(A) is amended by inserting “in the case of  
 4 a program established and maintained by a State or  
 5 agency or instrumentality thereof,” before “may  
 6 make”.

7           (3) CONFORMING AMENDMENTS.—

8           (A) Sections 72(e)(9), 135(c)(2)(C),  
 9 135(d)(1)(D), 529, 530(b)(2)(B), 4973(e), and  
 10 6693(a)(2)(C) are each amended by striking  
 11 “qualified State tuition” each place it appears  
 12 and inserting “qualified tuition”.

13           (B) The headings for sections 72(e)(9) and  
 14 135(c)(2)(C) are each amended by striking  
 15 “QUALIFIED STATE TUITION” and inserting  
 16 “QUALIFIED TUITION”.

17           (C) The headings for sections 529(b) and  
 18 530(b)(2)(B) are each amended by striking  
 19 “QUALIFIED STATE TUITION” and inserting  
 20 “QUALIFIED TUITION”.

21           (D) The heading for section 529 is amend-  
 22 ed by striking “**STATE**”.

23           (E) The item relating to section 529 in the  
 24 table of sections for part VIII of subchapter F  
 25 of chapter 1 is amended by striking “State”.

1 (b) EXCLUSION FROM GROSS INCOME OF EDU-  
 2 CATION DISTRIBUTIONS FROM QUALIFIED TUITION PRO-  
 3 GRAMS.—

4 (1) IN GENERAL.—Section 529(c)(3)(B) (relat-  
 5 ing to distributions) is amended to read as follows:

6 “(B) DISTRIBUTIONS FOR QUALIFIED  
 7 HIGHER EDUCATION EXPENSES.—

8 “(i) IN GENERAL.—For purposes of  
 9 this paragraph—

10 “(I) no amount shall be includ-  
 11 ible in gross income under subpara-  
 12 graph (A) by reason of a distribution  
 13 which consists of providing a benefit  
 14 to the distributee which, if paid for by  
 15 the distributee, would constitute pay-  
 16 ment of a qualified higher education  
 17 expense, and

18 “(II) the amount which (deter-  
 19 mined without regard to subclause  
 20 (I)) would be includible in gross in-  
 21 come under subparagraph (A) by rea-  
 22 son of any other distribution shall not  
 23 be so includible in an amount which  
 24 bears the same ratio to the amount  
 25 which would be so includible as the

1 qualified higher education expenses  
2 bear to such aggregate distributions.

3 “(ii) NONAPPLICATION OF CLAUSE.—

4 In the case of any taxable year beginning  
5 before January 1, 2004, clause (i) shall  
6 not apply with respect to any distribution  
7 in such taxable year under a qualified tui-  
8 tion program established and maintained  
9 by 1 or more eligible educational institu-  
10 tions.

11 “(iii) IN-KIND DISTRIBUTIONS.—Any  
12 benefit furnished to a designated bene-  
13 ficiary under a qualified tuition program  
14 shall be treated as a distribution to the  
15 beneficiary for purposes of this paragraph.

16 “(iv) COORDINATION WITH HOPE AND  
17 LIFETIME LEARNING CREDITS.—

18 “(I) IN GENERAL.—Except as  
19 provided in subclause (II), clause (i)  
20 shall not apply for any taxable year to  
21 any qualified higher education ex-  
22 penses with respect to any individual  
23 if a credit is allowed under section  
24 25A with respect to such expenses for  
25 such taxable year.



## 1                   “(II) SPECIAL COORDINATION

2                   RULE.—In the case of any taxable  
3                   year beginning after December 31,  
4                   1999, and before January 1, 2004,  
5                   subclause (I) shall not apply, but the  
6                   total amount of qualified higher edu-  
7                   cation expenses otherwise taken into  
8                   account under clause (i) with respect  
9                   to an individual for such taxable year  
10                  shall be reduced (after the application  
11                  of the reduction provided in section  
12                  25A(g)(2)) by the amount of such ex-  
13                  penses which were taken into account  
14                  in determining the credit allowed to  
15                  the taxpayer or any other person  
16                  under section 25A with respect to  
17                  such expenses.

## 18                  “(v) COORDINATION WITH EDUCATION

19                  IRAS.—If the aggregate distributions to  
20                  which clause (i) and section 530(d)(2)(A)  
21                  apply exceed the total amount of qualified  
22                  higher education expenses otherwise taken  
23                  into account under clause (i) (after the ap-  
24                  plication of clause (iv)) with respect to an  
25                  individual for any taxable year, the tax-

1 payer shall allocate such expenses among  
 2 such distributions for purposes of deter-  
 3 mining the amount of the exclusion under  
 4 clause (i) and section 530(d)(2)(A).”

5 (2) CONFORMING AMENDMENTS.—

6 (A) Section 135(d)(2)(B) is amended by  
 7 striking “section 530(d)(2)” and inserting “sec-  
 8 tions 529(c)(3)(B)(i) and 530(d)(2)”.

9 (B) Section 221(e)(2)(A) is amended by  
 10 inserting “529,” after “135,”.

11 (c) BENEFICIARY MAY CHANGE PROGRAM.—Section  
 12 529(c)(3)(C) (relating to change in beneficiaries) is  
 13 amended—

14 (1) by striking “transferred to the credit” in  
 15 clause (i) and inserting “transferred—

16 “(I) to another qualified tuition  
 17 program for the benefit of the des-  
 18 ignated beneficiary, or

19 “(II) to the credit”,

20 (2) by adding at the end the following new  
 21 clause:

22 “(iii) LIMITATION ON CERTAIN ROLL-  
 23 OVERS.—Clause (i)(I) shall only apply to  
 24 the first 3 transfers with respect to a des-  
 25 ignated beneficiary.”, and

1 (3) by inserting “OR PROGRAMS” after “BENE-  
2 FICIARIES” in the heading.

3 (d) MEMBER OF FAMILY INCLUDES FIRST COUS-  
4 IN.—Section 529(e)(2) (defining member of family) is  
5 amended by striking “and” at the end of subparagraph  
6 (B), by striking the period at the end of subparagraph  
7 (C) and by inserting “; and”, and by adding at the end  
8 the following new subparagraph:

9 “(D) any first cousin of such beneficiary.”

10 (e) EFFECTIVE DATE.—The amendments made by  
11 this section shall apply to taxable years beginning after  
12 December 31, 1999.

## 13 **TITLE II—EDUCATIONAL** 14 **ASSISTANCE**

### 15 **SEC. 201. EXTENSION OF EXCLUSION FOR EMPLOYER-PRO-** 16 **VIDED EDUCATIONAL ASSISTANCE.**

17 (a) IN GENERAL.—Section 127(d) (relating to termi-  
18 nation of exclusion for educational assistance programs)  
19 is amended by striking “May 31, 2000” and inserting  
20 “June 30, 2004”.

21 (b) REPEAL OF LIMITATION ON GRADUATE EDU-  
22 CATION.—

23 (1) IN GENERAL.—The last sentence of section  
24 127(c)(1) is amended by striking “, and such term  
25 also does not include any payment for, or the provi-

1 sion of any benefits with respect to, any graduate  
2 level course of a kind normally taken by an indi-  
3 vidual pursuing a program leading to a law, busi-  
4 ness, medical, or other advanced academic or profes-  
5 sional degree”.

6 (2) EFFECTIVE DATE.—The amendment made  
7 by paragraph (1) shall apply with respect to ex-  
8 penses relating to courses beginning after December  
9 31, 1999.

10 **SEC. 202. ELIMINATION OF 60-MONTH LIMIT ON STUDENT**  
11 **LOAN INTEREST DEDUCTION.**

12 (a) IN GENERAL.—Section 221 (relating to interest  
13 on education loans) is amended by striking subsection (d)  
14 and by redesignating subsections (e), (f), and (g) as sub-  
15 sections (d), (e), and (f), respectively.

16 (b) CONFORMING AMENDMENT.—Section 6050S(e)  
17 is amended by striking “section 221(e)(1)” and inserting  
18 “section 221(d)(1)”.

19 (c) EFFECTIVE DATE.—The amendments made by  
20 this section shall apply with respect to any loan interest  
21 paid after December 31, 1999.

1 **SEC. 203. EXCLUSION OF CERTAIN AMOUNTS RECEIVED**  
 2 **UNDER THE NATIONAL PUBLIC HEALTH**  
 3 **SERVICE CORPS SCHOLARSHIP PROGRAM**  
 4 **AND THE F. EDWARD HEBERT ARMED**  
 5 **FORCES HEALTH PROFESSIONS SCHOLAR-**  
 6 **SHIP AND FINANCIAL ASSISTANCE PROGRAM.**

7 (a) IN GENERAL.—Section 117(c) (relating to the ex-  
 8 clusion from gross income amounts received as a qualified  
 9 scholarship) is amended—

10 (1) by striking “Subsections (a)” and inserting  
 11 the following:

12 “(1) IN GENERAL.—Except as provided in para-  
 13 graph (2), subsections (a)”, and

14 (2) by adding at the end the following new  
 15 paragraph:

16 “(2) EXCEPTIONS.—Paragraph (1) shall not  
 17 apply to any amount received by an individual  
 18 under—

19 “(A) the National Public Health Service  
 20 Corps Scholarship Program under section  
 21 338A(g)(1)(A) of the Public Health Service  
 22 Act, or

23 “(B) the Armed Forces Health Professions  
 24 Scholarship and Financial Assistance program  
 25 under subchapter I of chapter 105 of title 10,  
 26 United States Code.”

1 (b) EFFECTIVE DATE.—The amendments made by  
 2 subsection (a) shall apply to amounts received in taxable  
 3 years beginning after December 31, 1993.

4 **TITLE III—LIBERALIZATION OF**  
 5 **TAX-EXEMPT FINANCING**  
 6 **RULES FOR PUBLIC SCHOOL**  
 7 **CONSTRUCTION**

8 **SEC. 301. ADDITIONAL INCREASE IN ARBITRAGE REBATE**  
 9 **EXCEPTION FOR GOVERNMENTAL BONDS**  
 10 **USED TO FINANCE EDUCATIONAL FACILI-**  
 11 **TIES.**

12 (a) IN GENERAL.—Section 148(f)(4)(D)(vii) (relat-  
 13 ing to increase in exception for bonds financing public  
 14 school capital expenditures) is amended by striking  
 15 “\$5,000,000” the second place it appears and inserting  
 16 “\$10,000,000”.

17 (b) EFFECTIVE DATE.—The amendment made by  
 18 subsection (a) shall apply to obligations issued in calendar  
 19 years beginning after December 31, 1999.

20 **SEC. 302. TREATMENT OF QUALIFIED PUBLIC EDU-**  
 21 **CATIONAL FACILITY BONDS AS EXEMPT FA-**  
 22 **CILITY BONDS.**

23 (a) TREATMENT AS EXEMPT FACILITY BOND.—Sub-  
 24 section (a) of section 142 (relating to exempt facility  
 25 bond) is amended by striking “or” at the end of paragraph

1 (11), by striking the period at the end of paragraph (12)  
 2 and inserting “, or”, and by adding at the end the fol-  
 3 lowing new paragraph:

4 “(13) qualified public educational facilities.”

5 (b) QUALIFIED PUBLIC EDUCATIONAL FACILI-  
 6 TIES.—Section 142 (relating to exempt facility bond) is  
 7 amended by adding at the end the following new sub-  
 8 section:

9 “(k) QUALIFIED PUBLIC EDUCATIONAL FACILI-  
 10 TIES.—

11 “(1) IN GENERAL.—For purposes of subsection  
 12 (a)(13), the term ‘qualified public educational facil-  
 13 ity’ means any school facility which is—

14 “(A) part of a public elementary school or  
 15 a public secondary school, and

16 “(B) owned by a private, for-profit cor-  
 17 poration pursuant to a public-private partner-  
 18 ship agreement with a State or local edu-  
 19 cational agency described in paragraph (2).

20 “(2) PUBLIC-PRIVATE PARTNERSHIP AGREE-  
 21 MENT DESCRIBED.—A public-private partnership  
 22 agreement is described in this paragraph if it is an  
 23 agreement—

24 “(A) under which the corporation agrees—

1 “(i) to do 1 or more of the following:  
 2 construct, rehabilitate, refurbish, or equip  
 3 a school facility, and

4 “(ii) at the end of the term of the  
 5 agreement, to transfer the school facility to  
 6 such agency for no additional consider-  
 7 ation, and

8 “(B) the term of which does not exceed the  
 9 term of the issue to be used to provide the  
 10 school facility.

11 “(3) SCHOOL FACILITY.—For purposes of this  
 12 subsection, the term ‘school facility’ means—

13 “(A) school buildings,

14 “(B) functionally related and subordinate  
 15 facilities and land with respect to such build-  
 16 ings, including any stadium or other facility pri-  
 17 marily used for school events, and

18 “(C) any property, to which section 168  
 19 applies (or would apply but for section 179), for  
 20 use in the facility.

21 “(4) PUBLIC SCHOOLS.—For purposes of this  
 22 subsection, the terms ‘elementary school’ and ‘sec-  
 23 ondary school’ have the meanings given such terms  
 24 by section 14101 of the Elementary and Secondary



1 Education Act of 1965 (20 U.S.C. 8801), as in ef-  
 2 fect on the date of the enactment of this subsection.

3 “(5) ANNUAL AGGREGATE FACE AMOUNT OF  
 4 TAX-EXEMPT FINANCING.—

5 “(A) IN GENERAL.—An issue shall not be  
 6 treated as an issue described in subsection  
 7 (a)(13) if the aggregate face amount of bonds  
 8 issued by the State pursuant thereto (when  
 9 added to the aggregate face amount of bonds  
 10 previously so issued during the calendar year)  
 11 exceeds an amount equal to the greater of—

12 “(i) \$10 multiplied by the State popu-  
 13 lation, or

14 “(ii) \$5,000,000.

15 “(B) ALLOCATION RULES.—

16 “(i) IN GENERAL.—Except as other-  
 17 wise provided in this subparagraph, the  
 18 State may allocate the amount described in  
 19 subparagraph (A) for any calendar year in  
 20 such manner as the State determines ap-  
 21 propriate.

22 “(ii) RULES FOR CARRYFORWARD OF  
 23 UNUSED LIMITATION.—A State may elect  
 24 to carry forward an unused limitation for  
 25 any calendar year for 3 calendar years fol-

1           lowing the calendar year in which the un-  
 2           used limitation arose under rules similar to  
 3           the rules of section 146(f), except that the  
 4           only purpose for which the carryforward  
 5           may be elected is the issuance of exempt  
 6           facility bonds described in subsection  
 7           (a)(13).”

8           (c) EXEMPTION FROM GENERAL STATE VOLUME  
 9   CAPS.—Paragraph (3) of section 146(g) (relating to ex-  
 10   ception for certain bonds) is amended—

11           (1) by striking “or (12)” and inserting “(12),  
 12           or (13)”, and

13           (2) by striking “and environmental enhance-  
 14           ments of hydroelectric generating facilities” and in-  
 15           serting “environmental enhancements of hydro-  
 16           electric generating facilities, and qualified public  
 17           educational facilities”.

18           (d) EXEMPTION FROM LIMITATION ON USE FOR  
 19   LAND ACQUISITION.—Section 147(h) (relating to certain  
 20   rules not to apply to mortgage revenue bonds, qualified  
 21   student loan bonds, and qualified 501(c)(3) bonds) is  
 22   amended by adding at the end the following new para-  
 23   graph:

24           “(3) EXEMPT FACILITY BONDS FOR QUALIFIED  
 25           PUBLIC-PRIVATE SCHOOLS.—Subsection (c) shall not

1       apply to any exempt facility bond issued as part of  
 2       an issue described in section 142(a)(13) (relating to  
 3       qualified public educational facilities).”

4       (e) CONFORMING AMENDMENT.—The heading for  
 5       section 147(h) is amended by striking “MORTGAGE REV-  
 6       ENUE BONDS, QUALIFIED STUDENT LOAN BONDS, AND  
 7       QUALIFIED 501(c)(3) BONDS” and inserting “CERTAIN  
 8       BONDS”.

9       (f) EFFECTIVE DATE.—The amendments made by  
 10      this section shall apply to bonds issued after December  
 11      31, 1999.

12   **SEC. 303. FEDERAL GUARANTEE OF SCHOOL CONSTRUC-**  
 13                   **TION BONDS BY FEDERAL HOUSING FINANCE**  
 14                   **BOARD.**

15      (a) IN GENERAL.—Section 149(b)(3) (relating to ex-  
 16      ceptions) is amended by adding at the end the following  
 17      new subparagraph:

18                   “(E) CERTAIN GUARANTEED SCHOOL CON-  
 19                   STRUCTION BONDS.—Any bond issued as part  
 20                   of an issue 95 percent or more of the net pro-  
 21                   ceeds of which are used for public school con-  
 22                   struction shall not be treated as federally guar-  
 23                   anteed for any calendar year by reason of any  
 24                   guarantee by the Federal Housing Finance  
 25                   Board (through any Federal Home Loan Bank)

1 under the Federal Home Loan Bank Act (12  
 2 U.S.C. 1421 et seq.), as in effect on the date  
 3 of the enactment of this subparagraph, to the  
 4 extent the face amount of such bond, when  
 5 added to the aggregate face amount of such  
 6 bonds previously so guaranteed for such year,  
 7 does not exceed \$500,000,000.”

8 (b) EFFECTIVE DATE.—The amendment made by  
 9 this section shall apply to bonds issued after December  
 10 31, 1999.

## 11 **TITLE IV—REVENUE** 12 **PROVISIONS**

### 13 **SEC. 401. MODIFICATION TO FOREIGN TAX CREDIT** 14 **CARRYBACK AND CARRYOVER PERIODS.**

15 (a) IN GENERAL.—Section 904(c) (relating to limita-  
 16 tion on credit) is amended—

17 (1) by striking “in the second preceding taxable  
 18 year,” and

19 (2) by striking “or fifth” and inserting “fifth,  
 20 sixth, or seventh”.

21 (b) EFFECTIVE DATE.—The amendment made by  
 22 subsection (a) shall apply to credits arising in taxable  
 23 years beginning after December 31, 2001.

1 **SEC. 402. LIMITATION ON USE OF NON-ACCRUAL EXPERI-**  
 2 **ENCE METHOD OF ACCOUNTING.**

3 (a) IN GENERAL.—Section 448(d)(5) (relating to  
 4 special rule for services) is amended—

5 (1) by inserting “in fields described in para-  
 6 graph (2)(A)” after “services by such person”, and

7 (2) by inserting “CERTAIN PERSONAL” before  
 8 “SERVICES” in the heading.

9 (b) EFFECTIVE DATE.—

10 (1) IN GENERAL.—The amendments made by  
 11 this section shall apply to taxable years ending after  
 12 the date of the enactment of this Act.

13 (2) CHANGE IN METHOD OF ACCOUNTING.—In  
 14 the case of any taxpayer required by the amend-  
 15 ments made by this section to change its method of  
 16 accounting for its first taxable year ending after the  
 17 date of the enactment of this Act—

18 (A) such change shall be treated as initi-  
 19 ated by the taxpayer,

20 (B) such change shall be treated as made  
 21 with the consent of the Secretary of the Treas-  
 22 ury, and

23 (C) the net amount of the adjustments re-  
 24 quired to be taken into account by the taxpayer  
 25 under section 481 of the Internal Revenue Code  
 26 of 1986 shall be taken into account over a pe-

1           riod (not greater than 4 taxable years) begin-  
 2           ning with such first taxable year.

3 **SEC. 403. RETURNS RELATING TO CANCELLATIONS OF IN-**  
 4 **DEBTEDNESS BY ORGANIZATIONS LENDING**  
 5 **MONEY.**

6       (a) IN GENERAL.—Paragraph (2) of section  
 7 6050P(c) (relating to definitions and special rules) is  
 8 amended by striking “and” at the end of subparagraph  
 9 (B), by striking the period at the end of subparagraph  
 10 (C) and inserting “, and”, and by inserting after subpara-  
 11 graph (C) the following new subparagraph:

12                   “(D) any organization a significant trade  
 13                   or business of which is the lending of money.”

14       (b) EFFECTIVE DATE.—The amendment made by  
 15 subsection (a) shall apply to discharges of indebtedness  
 16 after December 31, 1999.

17 **SEC. 404. EXTENSION OF INTERNAL REVENUE SERVICE**  
 18 **USER FEES.**

19       (a) IN GENERAL.—Chapter 77 (relating to miscella-  
 20 neous provisions) is amended by adding at the end the  
 21 following new section:

22 **“SEC. 7527. INTERNAL REVENUE SERVICE USER FEES.**

23           “(a) GENERAL RULE.—The Secretary shall establish  
 24 a program requiring the payment of user fees for—

1 “(1) requests to the Internal Revenue Service  
 2 for ruling letters, opinion letters, and determination  
 3 letters, and

4 “(2) other similar requests.

5 “(b) PROGRAM CRITERIA.—

6 “(1) IN GENERAL.—The fees charged under the  
 7 program required by subsection (a)—

8 “(A) shall vary according to categories (or  
 9 subcategories) established by the Secretary,

10 “(B) shall be determined after taking into  
 11 account the average time for (and difficulty of)  
 12 complying with requests in each category (and  
 13 subcategory), and

14 “(C) shall be payable in advance.

15 “(2) EXEMPTIONS, ETC.—The Secretary shall  
 16 provide for such exemptions (and reduced fees)  
 17 under such program as the Secretary determines to  
 18 be appropriate.

19 “(3) AVERAGE FEE REQUIREMENT.—The aver-  
 20 age fee charged under the program required by sub-  
 21 section (a) shall not be less than the amount deter-  
 22 mined under the following table:

<b>“Category</b>	<b>Average Fee</b>
Employee plan ruling and opinion .....	\$250
Exempt organization ruling .....	\$350
Employee plan determination .....	\$300
Exempt organization determination .....	\$275
Chief counsel ruling .....	\$200.

1       “(c) TERMINATION.—No fee shall be imposed under  
2 this section with respect to requests made after September  
3 30, 2009.”

4       (b) CONFORMING AMENDMENTS.—

5           (1) The table of sections for chapter 77 is  
6 amended by adding at the end the following new  
7 item:

“Sec. 7527. Internal Revenue Service user fees.”

8           (2) Section 10511 of the Revenue Act of 1987  
9 is repealed.

10       (c) EFFECTIVE DATE.—The amendments made by  
11 this section shall apply to requests made after the date  
12 of the enactment of this Act.

13 **SEC. 405. PROPERTY SUBJECT TO A LIABILITY TREATED IN**  
14 **SAME MANNER AS ASSUMPTION OF LIABIL-**  
15 **ITY.**

16       (a) REPEAL OF PROPERTY SUBJECT TO A LIABILITY  
17 TEST.—

18           (1) SECTION 357.—Section 357(a)(2) (relating  
19 to assumption of liability) is amended by striking “,  
20 or acquires from the taxpayer property subject to a  
21 liability”.

22           (2) SECTION 358.—Section 358(d)(1) (relating  
23 to assumption of liability) is amended by striking  
24 “or acquired from the taxpayer property subject to  
25 a liability”.



1 (3) SECTION 368.—

2 (A) Section 368(a)(1)(C) is amended by  
3 striking “, or the fact that property acquired is  
4 subject to a liability,”.

5 (B) The last sentence of section  
6 368(a)(2)(B) is amended by striking “, and the  
7 amount of any liability to which any property  
8 acquired from the acquiring corporation is sub-  
9 ject,”.

10 (b) CLARIFICATION OF ASSUMPTION OF LIABIL-  
11 ITY.—

12 (1) IN GENERAL.—Section 357 is amended by  
13 adding at the end the following new subsection:

14 “(d) DETERMINATION OF AMOUNT OF LIABILITY AS-  
15 SUMED.—

16 “(1) IN GENERAL.—For purposes of this sec-  
17 tion, section 358(d), section 362(d), section  
18 368(a)(1)(C), and section 368(a)(2)(B), except as  
19 provided in regulations—

20 “(A) a recourse liability (or portion there-  
21 of) shall be treated as having been assumed if,  
22 as determined on the basis of all facts and cir-  
23 cumstances, the transferee has agreed to, and is  
24 expected to, satisfy such liability (or portion),

1           whether or not the transferor has been relieved  
2           of such liability, and

3           “(B) except to the extent provided in para-  
4           graph (2), a nonrecourse liability shall be treat-  
5           ed as having been assumed by the transferee of  
6           any asset subject to such liability.

7           “(2) EXCEPTION FOR NONRECOURSE LIABIL-  
8           ITY.—The amount of the nonrecourse liability treat-  
9           ed as described in paragraph (1)(B) shall be reduced  
10          by the lesser of—

11           “(A) the amount of such liability which an  
12           owner of other assets not transferred to the  
13           transferee and also subject to such liability has  
14           agreed with the transferee to, and is expected  
15           to, satisfy, or

16           “(B) the fair market value of such other  
17           assets (determined without regard to section  
18           7701(g)).

19           “(3) REGULATIONS.—The Secretary shall pre-  
20           scribe such regulations as may be necessary to carry  
21           out the purposes of this subsection and section  
22           362(d). The Secretary may also prescribe regula-  
23           tions which provide that the manner in which a li-  
24           ability is treated as assumed under this subsection

1 is applied, where appropriate, elsewhere in this  
2 title.”

3 (2) LIMITATION ON BASIS INCREASE ATTRIB-  
4 UTABLE TO ASSUMPTION OF LIABILITY.—Section  
5 362 is amended by adding at the end the following  
6 new subsection:

7 “(d) LIMITATION ON BASIS INCREASE ATTRIB-  
8 UTABLE TO ASSUMPTION OF LIABILITY.—

9 “(1) IN GENERAL.—In no event shall the basis  
10 of any property be increased under subsection (a) or  
11 (b) above the fair market value of such property (de-  
12 termined without regard to section 7701(g)) by rea-  
13 son of any gain recognized to the transferor as a re-  
14 sult of the assumption of a liability.

15 “(2) TREATMENT OF GAIN NOT SUBJECT TO  
16 TAX.—Except as provided in regulations, if—

17 “(A) gain is recognized to the transferor as  
18 a result of an assumption of a nonrecourse li-  
19 ability by a transferee which is also secured by  
20 assets not transferred to such transferee, and

21 “(B) no person is subject to tax under this  
22 title on such gain,

23 then, for purposes of determining basis under sub-  
24 sections (a) and (b), the amount of gain recognized  
25 by the transferor as a result of the assumption of

1 the liability shall be determined as if the liability as-  
 2 sumed by the transferee equaled such transferee's  
 3 ratable portion of such liability determined on the  
 4 basis of the relative fair market values (determined  
 5 without regard to section 7701(g)) of all of the as-  
 6 sets subject to such liability.”

7 (c) APPLICATION TO PROVISIONS OTHER THAN SUB-  
 8 CHAPTER C.—

9 (1) SECTION 584.—Section 584(h)(3) is  
 10 amended—

11 (A) by striking “, and the fact that any  
 12 property transferred by the common trust fund  
 13 is subject to a liability,” in subparagraph (A),  
 14 and

15 (B) by striking clause (ii) of subparagraph  
 16 (B) and inserting:

17 “(ii) ASSUMED LIABILITIES.—For  
 18 purposes of clause (i), the term ‘assumed  
 19 liabilities’ means any liability of the com-  
 20 mon trust fund assumed by any regulated  
 21 investment company in connection with the  
 22 transfer referred to in paragraph (1)(A).

23 “(C) ASSUMPTION.—For purposes of this  
 24 paragraph, in determining the amount of any li-

1 ability assumed, the rules of section 357(d)  
2 shall apply.”

3 (2) SECTION 1031.—The last sentence of section  
4 1031(d) is amended—

5 (A) by striking “assumed a liability of the  
6 taxpayer or acquired from the taxpayer prop-  
7 erty subject to a liability” and inserting “as-  
8 sumed (as determined under section 357(d)) a  
9 liability of the taxpayer”, and

10 (B) by striking “or acquisition (in the  
11 amount of the liability)”.

12 (d) CONFORMING AMENDMENTS.—

13 (1) Section 351(h)(1) is amended by striking “,  
14 or acquires property subject to a liability,”.

15 (2) Section 357 is amended by striking “or ac-  
16 quisition” each place it appears in subsection (a) or  
17 (b).

18 (3) Section 357(b)(1) is amended by striking  
19 “or acquired”.

20 (4) Section 357(c)(1) is amended by striking “,  
21 plus the amount of the liabilities to which the prop-  
22 erty is subject,”.

23 (5) Section 357(c)(3) is amended by striking  
24 “or to which the property transferred is subject”.

1           (6) Section 358(d)(1) is amended by striking  
2           “or acquisition (in the amount of the liability)”.

3           (e) EFFECTIVE DATE.—The amendments made by  
4 this section shall apply to transfers after October 19,  
5 1998.

6 **SEC. 406. CHARITABLE SPLIT-DOLLAR LIFE INSURANCE,**  
7 **ANNUITY, AND ENDOWMENT CONTRACTS.**

8           (a) IN GENERAL.—Subsection (f) of section 170 (re-  
9 lating to disallowance of deduction in certain cases and  
10 special rules) is amended by adding at the end the fol-  
11 lowing new paragraph:

12                   “(10) SPLIT-DOLLAR LIFE INSURANCE, ANNU-  
13 ITY, AND ENDOWMENT CONTRACTS.—

14                           “(A) IN GENERAL.—Nothing in this sec-  
15 tion or in section 545(b)(2), 556(b)(2), 642(c),  
16 2055, 2106(a)(2), or 2522 shall be construed to  
17 allow a deduction, and no deduction shall be al-  
18 lowed, for any transfer to or for the use of an  
19 organization described in subsection (c) if in  
20 connection with such transfer—

21                                   “(i) the organization directly or indi-  
22 rectly pays, or has previously paid, any  
23 premium on any personal benefit contract  
24 with respect to the transferor, or

1                   “(ii) there is an understanding or ex-  
 2                   pectation that any person will directly or  
 3                   indirectly pay any premium on any per-  
 4                   sonal benefit contract with respect to the  
 5                   transferor.

6                   “(B) PERSONAL BENEFIT CONTRACT.—  
 7                   For purposes of subparagraph (A), the term  
 8                   ‘personal benefit contract’ means, with respect  
 9                   to the transferor, any life insurance, annuity, or  
 10                  endowment contract if any direct or indirect  
 11                  beneficiary under such contract is the trans-  
 12                  feror, any member of the transferor’s family, or  
 13                  any other person (other than an organization  
 14                  described in subsection (c)) designated by the  
 15                  transferor.

16                  “(C) APPLICATION TO CHARITABLE RE-  
 17                  MAINDER TRUSTS.—In the case of a transfer to  
 18                  a trust referred to in subparagraph (E), ref-  
 19                  erences in subparagraphs (A) and (F) to an or-  
 20                  ganization described in subsection (c) shall be  
 21                  treated as a reference to such trust.

22                  “(D) EXCEPTION FOR CERTAIN ANNUITY  
 23                  CONTRACTS.—If, in connection with a transfer  
 24                  to or for the use of an organization described  
 25                  in subsection (c), such organization incurs an

obligation to pay a charitable gift annuity (as defined in section 501(m)) and such organization purchases any annuity contract to fund such obligation, persons receiving payments under the charitable gift annuity shall not be treated for purposes of subparagraph (B) as indirect beneficiaries under such contract if—

“(i) such organization possesses all of the incidents of ownership under such contract,

“(ii) such organization is entitled to all the payments under such contract, and

“(iii) the timing and amount of payments under such contract are substantially the same as the timing and amount of payments to each such person under such obligation (as such obligation is in effect at the time of such transfer).

“(E) EXCEPTION FOR CERTAIN CONTRACTS HELD BY CHARITABLE REMAINDER TRUSTS.—A person shall not be treated for purposes of subparagraph (B) as an indirect beneficiary under any life insurance, annuity, or endowment contract held by a charitable remainder annuity trust or a charitable remainder



unitrust (as defined in section 664(d)) solely by reason of being entitled to any payment referred to in paragraph (1)(A) or (2)(A) of section 664(d) if—

“(i) such trust possesses all of the incidents of ownership under such contract, and

“(ii) such trust is entitled to all the payments under such contract.

“(F) EXCISE TAX ON PREMIUMS PAID.—

“(i) IN GENERAL.—There is hereby imposed on any organization described in subsection (c) an excise tax equal to the premiums paid by such organization on any life insurance, annuity, or endowment contract if the payment of premiums on such contract is in connection with a transfer for which a deduction is not allowable under subparagraph (A), determined without regard to when such transfer is made.

“(ii) PAYMENTS BY OTHER PERSONS.—For purposes of clause (i), payments made by any other person pursuant to an understanding or expectation re-

ferred to in subparagraph (A) shall be treated as made by the organization.

“(iii) REPORTING.—Any organization on which tax is imposed by clause (i) with respect to any premium shall file an annual return which includes—

“(I) the amount of such premiums paid during the year and the name and TIN of each beneficiary under the contract to which the premium relates, and

“(II) such other information as the Secretary may require.

The penalties applicable to returns required under section 6033 shall apply to returns required under this clause. Returns required under this clause shall be furnished at such time and in such manner as the Secretary shall by forms or regulations require.

“(iv) CERTAIN RULES TO APPLY.—The tax imposed by this subparagraph shall be treated as imposed by chapter 42 for purposes of this title other than subparagraph B of chapter 42.

“(G) SPECIAL RULE WHERE STATE RE-  
 QUIRES SPECIFICATION OF CHARITABLE GIFT  
 ANNUITANT IN CONTRACT.—In the case of an  
 obligation to pay a charitable gift annuity re-  
 ferred to in subparagraph (D) which is entered  
 into under the laws of a State which requires,  
 in order for the charitable gift annuity to be ex-  
 empt from insurance regulation by such State,  
 that each beneficiary under the charitable gift  
 annuity be named as a beneficiary under an an-  
 nuity contract issued by an insurance company  
 authorized to transact business in such State,  
 the requirements of clauses (i) and (ii) of sub-  
 paragraph (D) shall be treated as met if—

“(i) such State law requirement was  
 in effect on February 8, 1999,

“(ii) each such beneficiary under the  
 charitable gift annuity is a bona fide resi-  
 dent of such State at the time the obliga-  
 tion to pay a charitable gift annuity is en-  
 tered into, and

“(iii) the only persons entitled to pay-  
 ments under such contract are persons en-  
 titled to payments as beneficiaries under

1           such obligation on the date such obligation  
2           is entered into.

3           “(H) REGULATIONS.—The Secretary shall  
4           prescribe such regulations as may be necessary  
5           or appropriate to carry out the purposes of this  
6           paragraph, including regulations to prevent the  
7           avoidance of such purposes.”

8           (b) EFFECTIVE DATE.—

9           (1) IN GENERAL.—Except as otherwise pro-  
10          vided in this section, the amendment made by this  
11          section shall apply to transfers made after February  
12          8, 1999.

13          (2) EXCISE TAX.—Except as provided in para-  
14          graph (3) of this subsection, section 170(f)(10)(F)  
15          of the Internal Revenue Code of 1986 (as added by  
16          this section) shall apply to premiums paid after the  
17          date of the enactment of this Act.

18          (3) REPORTING.—Clause (iii) of such section  
19          170(f)(10)(F) shall apply to premiums paid after  
20          February 8, 1999 (determined as if the tax imposed  
21          by such section applies to premiums paid after such  
22          date).

23   **SEC. 407. TRANSFER OF EXCESS DEFINED BENEFIT PLAN**  
24                   **ASSETS FOR RETIREE HEALTH BENEFITS.**

25          (a) EXTENSION.—

1           (1) IN GENERAL.—Section 420(b)(5) (relating  
2           to expiration) is amended by striking “in any tax-  
3           able year beginning after December 31, 2000” and  
4           inserting “made after September 30, 2009”.

5           (2) CONFORMING AMENDMENTS.—

6                   (A) Section 101(e)(3) of the Employee Re-  
7           tirement Income Security Act of 1974 (29  
8           U.S.C. 1021(e)(3)) is amended by striking  
9           “1995” and inserting “2001”.

10                  (B) Section 403(c)(1) of such Act (29 U.S.C.  
11           1103(c)(1)) is amended by striking “1995” and in-  
12           serting “2001”.

13                  (C) Paragraph (13) of section 408(b) of such  
14           Act (29 U.S.C. 1108(b)(13)) is amended—

15                   (i) by striking “in a taxable year beginning  
16           before January 1, 2001” and inserting “made  
17           before October 1, 2009”, and

18                   (ii) by striking “1995” and inserting  
19           “2001”.

20           (b) APPLICATION OF MINIMUM COST REQUIRE-  
21   MENTS.—

22                  (1) IN GENERAL.—Section 420(c)(3) is amend-  
23           ed to read as follows:

24                   “(3) MINIMUM COST REQUIREMENTS.—

1           “(A) IN GENERAL.—The requirements of  
 2           this paragraph are met if each group health  
 3           plan or arrangement under which applicable  
 4           health benefits are provided provides that the  
 5           applicable employer cost for each taxable year  
 6           during the cost maintenance period shall not be  
 7           less than the higher of the applicable employer  
 8           costs for each of the 2 taxable years imme-  
 9           diately preceding the taxable year of the quali-  
 10          fied transfer.

11           “(B) APPLICABLE EMPLOYER COST.—For  
 12           purposes of this paragraph, the term ‘applicable  
 13           employer cost’ means, with respect to any tax-  
 14           able year, the amount determined by dividing—

15                   “(i) the qualified current retiree  
 16                   health liabilities of the employer for such  
 17                   taxable year determined—

18                           “(I) without regard to any reduc-  
 19                           tion under subsection (e)(1)(B), and

20                           “(II) in the case of a taxable  
 21                           year in which there was no qualified  
 22                           transfer, in the same manner as if  
 23                           there had been such a transfer at the  
 24                           end of the taxable year, by

1 “(ii) the number of individuals to  
 2 whom coverage for applicable health bene-  
 3 fits was provided during such taxable year.

4 “(C) ELECTION TO COMPUTE COST SEPA-  
 5 RATELY.—An employer may elect to have this  
 6 paragraph applied separately with respect to in-  
 7 dividuals eligible for benefits under title XVIII  
 8 of the Social Security Act at any time during  
 9 the taxable year and with respect to individuals  
 10 not so eligible.

11 “(D) COST MAINTENANCE PERIOD.—For  
 12 purposes of this paragraph, the term ‘cost  
 13 maintenance period’ means the period of 5 tax-  
 14 able years beginning with the taxable year in  
 15 which the qualified transfer occurs. If a taxable  
 16 year is in 2 or more overlapping cost mainte-  
 17 nance periods, this paragraph shall be applied  
 18 by taking into account the highest applicable  
 19 employer cost required to be provided under  
 20 subparagraph (A) for such taxable year.”

21 (2) CONFORMING AMENDMENTS.—

22 (A) Section 420(b)(1)(C)(iii) is amended  
 23 by striking “benefits” and inserting “cost”.

24 (B) Section 420(e)(1)(D) is amended by  
 25 striking “and shall not be subject to the min-

1           imum benefit requirements of subsection  
 2           (c)(3)” and inserting “or in calculating applica-  
 3           ble employer cost under subsection (c)(3)(B)”.

4           (c) EFFECTIVE DATE.—The amendments made by  
 5 this section shall apply to qualified transfers occurring  
 6 after December 31, 2000, and before October 1, 2009.

7   **SEC. 408. LIMITATIONS ON WELFARE BENEFIT FUNDS OF 10**  
 8                           **OR MORE EMPLOYER PLANS.**

9           (a) BENEFITS TO WHICH EXCEPTION APPLIES.—  
 10 Section 419A(f)(6)(A) (relating to exception for 10 or  
 11 more employer plans) is amended to read as follows:

12                   “(A) IN GENERAL.—This subpart shall not  
 13           apply to a welfare benefit fund which is part of  
 14           a 10 or more employer plan if the only benefits  
 15           provided through the fund are 1 or more of the  
 16           following:

17                           “(i) Medical benefits.

18                           “(ii) Disability benefits.

19                           “(iii) Group term life insurance bene-  
 20           fits which do not provide for any cash sur-  
 21           render value or other money that can be  
 22           paid, assigned, borrowed, or pledged for  
 23           collateral for a loan.



1           The preceding sentence shall not apply to any  
 2           plan which maintains experience-rating arrange-  
 3           ments with respect to individual employers.”

4           (b) LIMITATION ON USE OF AMOUNTS FOR OTHER  
 5 PURPOSES.—Section 4976(b) (defining disqualified ben-  
 6 efit) is amended by adding at the end the following new  
 7 paragraph:

8           “(5) SPECIAL RULE FOR 10 OR MORE EM-  
 9 PLOYER PLANS EXEMPTED FROM PREFUNDING LIM-  
 10 ITS.—For purposes of paragraph (1)(C), if—

11           “(A) subpart D of part I of subchapter D  
 12           of chapter 1 does not apply by reason of section  
 13           419A(f)(6) to contributions to provide 1 or  
 14           more welfare benefits through a welfare benefit  
 15           fund under a 10 or more employer plan, and

16           “(B) any portion of the welfare benefit  
 17           fund attributable to such contributions is used  
 18           for a purpose other than that for which the con-  
 19           tributions were made,

20           then such portion shall be treated as reverting to the  
 21           benefit of the employers maintaining the fund.”

22           (c) EFFECTIVE DATE.—The amendments made by  
 23 this section shall apply to contributions paid or accrued  
 24 after the date of the enactment of this Act, in taxable  
 25 years ending after such date.

1 **SEC. 409. MODIFICATION OF INSTALLMENT METHOD AND**  
 2 **REPEAL OF INSTALLMENT METHOD FOR AC-**  
 3 **CRUAL METHOD TAXPAYERS.**

4 (a) REPEAL OF INSTALLMENT METHOD FOR AC-  
 5 CRUAL BASIS TAXPAYERS.—

6 (1) IN GENERAL.—Subsection (a) of section  
 7 453 (relating to installment method) is amended to  
 8 read as follows:

9 “(a) USE OF INSTALLMENT METHOD.—

10 “(1) IN GENERAL.—Except as otherwise pro-  
 11 vided in this section, income from an installment  
 12 sale shall be taken into account for purposes of this  
 13 title under the installment method.

14 “(2) ACCRUAL METHOD TAXPAYER.—The in-  
 15 stallment method shall not apply to income from an  
 16 installment sale if such income would be reported  
 17 under an accrual method of accounting without re-  
 18 gard to this section. The preceding sentence shall  
 19 not apply to a disposition described in subparagraph  
 20 (A) or (B) of subsection (l)(2).”

21 (2) CONFORMING AMENDMENTS.—Sections  
 22 453(d)(1), 453(i)(1), and 453(k) are each amended  
 23 by striking “(a)” each place it appears and inserting  
 24 “(a)(1)”.

25 (b) MODIFICATION OF PLEDGE RULES.—Paragraph  
 26 (4) of section 453A(d) (relating to pledges, etc., of install-

1 ment obligations) is amended by adding at the end the  
 2 following: “A payment shall be treated as directly secured  
 3 by an interest in an installment obligation to the extent  
 4 an arrangement allows the taxpayer to satisfy all or a por-  
 5 tion of the indebtedness with the installment obligation.”

6 (c) EFFECTIVE DATE.—The amendments made by  
 7 this section shall apply to sales or other dispositions occur-  
 8 ring on or after the date of the enactment of this Act.

9 **SEC. 410. INCLUSION OF CERTAIN VACCINES AGAINST**  
 10 **STREPTOCOCCUS PNEUMONIAE TO LIST OF**  
 11 **TAXABLE VACCINES.**

12 (a) IN GENERAL.—Section 4132(a)(1) (defining tax-  
 13 able vaccine) is amended by adding at the end the fol-  
 14 lowing new subparagraph:

15 “(L) Any conjugate vaccine against strep-  
 16 tococcus pneumoniae.”

17 (b) EFFECTIVE DATE.—

18 (1) SALES.—The amendment made by this sec-  
 19 tion shall apply to vaccine sales beginning on the  
 20 day after the date on which the Centers for Disease  
 21 Control makes a final recommendation for routine  
 22 administration to children of any conjugate vaccine  
 23 against streptococcus pneumoniae.

24 (2) DELIVERIES.—For purposes of paragraph  
 25 (1), in the case of sales on or before the date de-

- 1 scribed in such paragraph for which delivery is made
- 2 after such date, the delivery date shall be considered
- 3 the sale date.